

Tax reforms: historical experience

Исторический опыт налоговых реформ

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Tax reforms and elections in modern Russia

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ABSTRACT

The article is devoted to the study of the tax reforms in modern Russia. Tax reforms carried out since the beginning of the 1990s are analyzed in connection with the cyclical repetition of the stages of the electoral process, or the so-called electoral cycle. The research methodology includes the calculation of indicators characterizing the change in the tax system and the analysis of their dynamics at various stages of the electoral cycle. The main quantitative and qualitative indicators are: the tax burden on the economy as a whole (nominal and real); the tax burden on individual elements of GDP (on wages, on gross profit, on actual final consumption); the number of changes made to tax legislation; terms and procedure of tax amnesty. Three stages of tax reforms have been identified (1993–1996, 1997–2000, 2001–present) for research in modern history of Russia. The first two stages of tax reforms directly coincided with the electoral cycles. The third modern stage of tax reforms is implemented during several electoral cycles. The revealed influence of elections on the tax system of Russia results in a cyclical increase of the tax burden on the main elements of GDP in the first years of cycles and lowering of the tax burden in the final years of electoral cycles. In the elective period for elections to the State Duma, the nominal tax burden on the economy is always reduced. In the election year and next year of the electoral cycle, there is an increase in effective rates for profit, consumption and labor. In the final years of the electoral cycle, there is a decrease in effective rates for profit, consumption and labor. Thus, the results of the study confirmed the assumption on the existence of a relationship between tax reforms and elections in Russia and the possibility of increasing the tax burden in the short term

KEYWORDS

Tax reform, transformation of the tax system, tax burden, tax legislation, tax amnesty, electoral cycle, presidential elections, elections to the State Duma

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HIGHLIGHTS

1. The relationship between tax reforms and electoral cycles in Russia is unambiguously present. The intensity of the relationship is determined by the degree of competition in the elections
2. The electoral cycles for the elections to the State Duma of the Russian Federation have a stronger impact on tax reforms in Russia
3. Legislative activity on reforming the tax system of the Russian Federation is associated with the stages of the electoral cycle (declining in the election year in the State Duma and increasing in the pre-election period)
4. Tax amnesties are unambiguously connected with the electoral process and their conduct is confined to the elective period

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Налоговые реформы и выборы в современной России

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АННОТАЦИЯ

Статья посвящена исследованию налоговых реформ в современной России. Проведенные с начала 1990-х гг. налоговые преобразования анализируются во взаимосвязи с циклическим повторением этапов выборного процесса, или так называемым электоральным циклом. Методика исследования включает в себя расчет показателей, характеризующих изменение налоговой системы и анализ их динамики на разных этапах электорального цикла. В качестве основных количественных и качественных показателей выбраны: налоговое бремя на экономику в целом (номинальное и реальное); налоговое бремя на отдельные элементы ВВП (на оплату труда, на валовую прибыль, на фактическое конечное потребление); количество изменений, внесенных в налоговое законодательство; сроки и порядок проведения налоговых амнистий. Для исследования в современной истории России выделены три этапа налоговых реформ (1993–1996 гг.; 1997–2000 гг.; 2001 г. — настоящее время). Первые два этапа налоговых реформ прямо совпадали с электоральными циклами. Третий современный этап налоговых реформ реализуется в течение нескольких электоральных циклов. Выявленное влияние выборов на налоговую систему России заключается в циклическом повышении налоговой нагрузки на основные элементы ВВП в первые годы циклов и понижении налоговой нагрузки в завершающие годы электоральных циклов. В выборный период по выборам в ГД РФ всегда снижается номинальное налоговое бремя на экономику. В год выборов и следующий год электорального цикла наблюдается повышение эффективных ставок на прибыль, потребление и труд. В завершающие годы электорального цикла отмечается понижение эффективных ставок на прибыль, потребление и труд. Таким образом, результаты исследования подтвердили предположение о существовании взаимосвязи между налоговыми преобразованиями и выборами в России и возможность повышения налоговой нагрузки в ближайшей перспективе.

КЛЮЧЕВЫЕ СЛОВА

Налоговая реформа, трансформация налоговой системы, налоговое бремя, налоговое законодательство, налоговая амнистия, электоральный цикл, выборы Президента, выборы в Государственную Думу

ОСНОВНЫЕ ПОЛОЖЕНИЯ

1. Взаимосвязь между налоговыми преобразованиями и электоральными циклами в России однозначно присутствует. Интенсивность взаимосвязи определяется степенью конкуренции на выборах
2. Более сильное влияние на налоговые реформы в России оказывают электоральные циклы по выборам в Государственную Думу РФ
3. Законодательная активность по реформированию налоговой системы РФ связана с этапами электорального цикла (снижается в год выборов в ГД и возрастает в предвыборном периоде)
4. Налоговые амнистии однозначно связаны с электоральным процессом и их проведение приурочено к выборному периоду

1. Introduction

President's elections have just finished in Russia as well as a regular electoral cycle has ended. Political scientists are now making forecasts on possible changes in the government and further steps of the President, but we are interested whether there will be any changes in the tax legislation after the election. The Ministry of Finance of the Russian Federation promises predictable fiscal conditions and no increase of the tax burden on bona fide taxpayers in the Main Directions of the budgetary, tax and customs tariff policy for 2018 and for the planning period 2019 and 2020¹.

It is well known that taxes might be a bright element of an election campaign. Remember the famous promises of the western leaders "Read my leaps — no new taxes". But in reality, the election promises, and factual actions do not always match, and the tax reforms are not an exclusion in this case.

Dictionaries provide two definitions of the word "reform". The first definition of "reform" is "to improve, to make close to perfection". Other definition is "to change, to transform". When politicians discuss the necessity of tax reforms they usually have in mind both meanings: the reform is the change in the tax system which leads to its improvement. Nevertheless, in most cases, changes can be considered an improvement only from the point of view of their initiators. History knows examples when the improvements of the tax system made by one government for tax reform were abolished by the next government also for tax reform purposes.

Is there a link between the tax reforms in the Russian Federation and the elections? We proceed from the hypothesis that the change of electoral cycles must be accompanied by appropriate changes in the tax sphere. And the tax reforms

themselves are derived from the political pre-election promises. In this regard, electoral cycles should lead to qualitative and quantitative changes in the country's tax system.

To prove the hypothesis, we analyze the main aspects of tax system transformation in modern Russia and refer the changes to the stages of electoral cycle.

In our research we are trying to answer several questions:

1. Which changes in the tax system of the RF were prevailing before and after the elections?

2. Which type of elections is connected with tax reforms more closely — parliament or president's elections?

3. Is it possible to claim that there is the relationship between tax reforms and electoral cycles in Russia?

For the purpose of tax reform study qualitative changes of tax burden as the integral indicator of taxation are analyzed including the changes in the effective tax burden for tax groups, as well as qualitative changes in taxation, tax administration and control.

The paper proceeds as follows. In the next two parts we consider theoretical substantiation of the relationship between tax reforms and elections and the research methodology. In the fourth part we describe general characteristics and trends of tax transformation in modern Russia. The analysis of the tax burden in the tax system of Russia in the period of 1993–2018 is made in the fifth part, and the relation of the said tax burden with the electoral cycle. In the sixth part we have analyzed the frequency of the tax legislation changes and certain aspects of tax administration linked to the timing of electoral cycle. Final part of the paper devoted to discussions on the result of analysis.

We analyzed the tax changes from 1993 to 2016. The choice of the time period is connected both with the availability of statistical data (statistics for calculating the tax burden for 2017 are not yet fully available) and with the periodization of the electoral cycle in Russia.

Several variants of electoral cycle periodization are suggested at present.

¹ Information of the official website of the Ministry of Finance of the Russian Federation. Available at: http://minfin.ru/ru/document/?id_4=119695&area_id=4&page_id=2104&popup=Y#ixzz5D0hprOOJ.

First, the elections of 1989, when the elections to the Supreme Counsel of the USSR were held with some elements of the alternative. Second, some authors suggest considering the dates of the electoral processes since 1990 and even 1991, when the first elections of the President of the Russian Soviet Federative Socialist Republic took place. The majority of the researchers support the opinion that electoral development should be considered only since 1993, when the Constitution was adopted and the first elections to the State Duma of the Russian Federation took place [1]. In this case the first electoral cycle started in autumn 1993 with the dissolution of the Supreme Council of the RSFSR and the beginning of the electoral campaign for the State Duma of RF of the first convocation. In the period of time since adopting the Constitution of 1993 six cycles of the federal elections took place in Russia – the elections to the state Duma, and in 3–6 months – the elections of the President.

2. Literature Review

The classics of Marxism-Leninism drew attention to the interrelationship of politics and economics. They distinguished the following relations: the primacy of the economy in relation to politics, the active backward impact of politics on the economy, the primacy of politics over the economy.

They derived defining the nature of the economy impact on politics from the fundamental position of Marxism on the primacy of the economic basis and the secondary nature of the superstructure. The nature of the reverse effect was considered depending on the state of the latter, since “all governments, even the most absolutist, are ultimately only executors of economic necessity...” [2, p. 314]. The founders of Marxism-Leninism singled out three main directions of the impact of politics on the economy: politics can either accelerate economic development, acting in accordance with its laws, or slow it down by putting obstacles to the movement of the economy; or act simultaneously in the first two directions, then the

total influence will be either accelerating or retarding.

In Western political science electoral cycles are actively studied for various purposes and with various scientific approaches. Widely spread are the studies of changes in the electoral behavior of voters and authority agents during a certain cycle. A. Campbell argued that the presidential electoral cycles in the US differ in the degree of support for the presidential party during the elections and after the elections. From the degree of this support, which is cyclical, depends both on the overall course of the elections, and on their outcomes [3].

Early theories of fiscal choices (for instance, J. Buchanan and R. Wagner) based on political considerations highlight the manipulation of government expenditures by policymakers trying to get re-elected. The basic argument is that voters value public spending but consistently underestimate its costs in terms of the tax burden, especially if those costs are postponed. Thus, voters support policymakers who provide high levels of deficit-financed expenditures, and oust incumbents who are fiscally conservative [4].

Public choice theory explains and interprets politics as the interaction among constituents and agents seeking to advance or to express their own interests. J. M. Buchanan explains the tax changes as the political event and shows that it depends critically on the model of political choice [5]. Political reality of tax changes presumably embodies some mix of models of consensus, conflict, and agents’ discretion.

In particular, according to the theory of party preferences A. Gelman and G. King, voter preferences are formed during election campaigns, if the media provide voters with the necessary information on the basis of which voters determine their social position and evaluate party platforms [6]. Models of support for parties by voters throughout the entire electoral cycle may change. In the middle of the electoral cycle, the party that won the parliamentary elections loses its popularity. Before the next election, it restores voters’ confidence.

A. Drazin continued his research in this direction. He analyzed the explanatory possibilities of the first model of the monetary policy-business cycle and reviewed the theories that emerged over the next 25 years [7]. W. L. Miller and M. Mackie characterize electoral cycles through the dependence of political party popularity on economic conditions [8].

The neoinstitutional approach provides more opportunities to characterize political changes during certain electoral cycles. The influence of institutional design on elections and vice versa is studied by American political scientists M. Shugart and M. Soberg [9]. They believe that the parliamentary elections set the logic for the development of the entire electoral cycle. The low weight of the presidential party in parliament jeopardizes the formation of the government and makes its work ineffective. A fragmented government in the presidential system often leads to pathological situations. Thus, the institutional specifics of government formation sets the logic for the development of the election campaign and determines the content of the electoral cycle.

Substantially more productive, but at the same time less developed is the political-economic approach. From the standpoint of this approach, a number of interesting models of the electoral cycle have been developed. For the first time, a rational model of the electoral cycle was developed by W. Nordhaus [10]. The model is based on the fact that politicians manipulate economic policy before elections to increase the chances of re-election.

G. Brennan and J. M. Buchanan in 1980 offer an approach to the understanding and evaluation of the fiscal system, in which government is modelled as "revenue-maximizing Leviathan" [11]. The central question becomes: how much "power to tax" would the citizen voluntarily grant to government as a party to some initial social contract devising a fiscal constitution? Armed with such a model, politics in the office after elections assumed to exploit the power assigned to them to the maximum possible extent.

The model of the K. Rogoff budget cycle equilibrium is very interesting [12]. Under this model, the government signals its desire to be re-elected during the electoral cycle through the implementation of fiscal policy. As a rule, budgetary expenditures increase before the elections.

The most interesting for our study is the model developed by Per Pettersson-Lidbom. He revealed the dependence between the electoral success of the current government, the level of government spending and the collection of taxes. On the example of local executive elections in Sweden, he analyzes the explanatory possibilities of the theory of rational cycles. Pettersson-Leadbom made the following interesting conclusions: (1) the government increases expenditures and reduces taxes in the election year; (2) the government, which has a better chance of being reelected, implements large expenditures in the election year; (3) a year after the election, re-elected governments spend more than the governments just elected and, accordingly, reduce tax rates; (4) re-elected governments spend less after the elections than in the election year and taxes are collected more; (5) tax conditions and the level of government spending affect electoral success [13].

Some studies indicate the close connection between the elections and timing of tax reform.

For example, J. L. Mikesell shows that much of the pattern of state tax policy changes can be traced directly by elections [14]. They argue that state parties are concerned with gaining and retaining political power and that the severity of public reaction declines with the passage of time. The outcome is a distinct rate change cycle with the broad based taxes. Politically, state governments find it rational to increase statutory rates of major taxes at two points in the election cycle (three years and one year before the elections).

A. Alesina, D. Carloni and G. Lecce examined the conventional wisdom that fiscally "tight" governments lose popularity and elections and strong and popular government can implement fiscal adjustments and be reelected [15]. They found surpri-

singly little evidence supporting this conventional wisdom and no evidence that even large reductions of budget deficits are always associated (or most of the time) with electoral losses. The authors note that it is difficult to measure “strength” of a government, *ex ante*, and therefore their test should be taken cautiously.

H. Ehrhart analyses the impact of the electoral calendar on the composition of tax revenue (direct versus indirect taxes) [16]. It thus represents an extension of traditional political budget-cycle analyses assessing the impact of elections on overall revenue. Using the panel data from 56 developing countries over the 1980–2006 period authors find robust evidence of lower indirect taxes being applied by incumbent governments in the period just prior to an election. Indirect tax revenue in election years is estimated to be 0.3 *GDP* percentage points lower than in other years, corresponding to a fall of about 3.4 % of the average figure in the sample countries, while there is no such relationship with direct tax revenue.

M. Hallerberg and C. Scartascini finds support for the role of elections and banking crises in the timing of tax reforms and the allocation of the additional tax burden [17]. They argue that during electoral periods, increasing taxes becomes highly unlikely, even if the government is facing financing problems. Interestingly, politics seem to trump economics: banking crises do not affect the probability of having a reform during electoral times.

It is interesting that modern studies have confirmed the positions of the classics of Marxism-Leninism about the primacy of the economy in relation to politics for countries with a long history of democratic elections. Our study is designed to find out whether this provision is relevant for Russia.

3. Research Methodology

3.1. The tax burden indicators

To study the relationship between the electoral cycle and taxes, we are primarily going to analyze the change in the tax burden. Tax burden indicator characterizes

the proportion of mandatory payments paid to the country’s budget system in the corresponding resulting source of their payment (gross product, value added, income, etc.). The economic meaning of this indicator can be considered as a form of the monopoly price of aggregate public goods, in which the measure of the public services value is expressed. Payers of obligatory payments here act as forced “buyers” of public services, the cost of which is set by the state, in the form of the rates of these payments for the next year. While the seller (the state) is trying to inflate the price of its services, buyers (taxpayers) tend to lower it, hiding objects and income from taxation. There are, so-called “scissors” between nominal (assessed) and real (actual) indicators of the tax burden. The real tax burden is an indicator characterizing the ratio of the actually paid mandatory payments amount to the value of the corresponding activity result. The nominal tax burden is an indicator characterizing the ratio of the amount of assessed mandatory payments to the value of the corresponding result of activity. These “scissors” are always present and in all indicators of the burden. Their scale directly indicates the level of tax discipline, the effectiveness of the tax administration system, the state of the economy. But the main thing is that the scale of these “scissors” is an indicator of the acceptability or unacceptability of the existing level of the tax burden, and in fact, the price of aggregate public goods established by the state. The existing level of the tax burden shows the degree of centralization and socialization of *GDP* and its components, which, on the one hand, carries a stamp of subjective, monopoly actions by the government, and on the other hand reflects objective market and tax patterns, features of the tax policy model, economic model and the achieved level of socio-economic development of the country. The methodology for calculating the tax burden applied by the state statistics bodies determines the tax burden (*TB_n*) as the percentage of actual tax revenues in the budget system (*TR*) in *GDP* (*GDP*):

$$TB_n = \frac{TR}{GDP} \cdot 100\%.$$

The use of actual receipts as a numerator indicates the calculation of the real indicator. This indicator is suitable to make international comparative analysis of the tax burden. It does not show full and objective understanding of the burden's actual gravity. The numerator of the tax burden indicator should reflect the amount of accrued, not paid (actually received in the budget) payments, i.e. for domestic use, it is necessary to operate with nominal values.

The difference between nominal and real indicators is formed by so-called "tax scissors".

For analytical purposes and the development of tax policy measures, it is also possible to calculate the following tax burden indicators for individual elements of GDP in the System of National Accounts: on labor (taking into account insurance premiums), on gross profit in the economy, and on actual final consumption. At the same time, only those accrued taxes, fees and mandatory payments will be reflected in the numerator, the source of their payment is the corresponding basic indicator.

These indicators reflect the effective aggregate tax rate applied to a particular element of GDP. To calculate three price indicators (effective tax rates for labor, consumption and profit) we will use the following formulas.

The index of the nominal tax burden on labor (TB_{labour}):

$$TB_{labour} = \frac{PIT_{factual} + SP_{factual} + PIT_{debt} + SP_{debt}}{LP_{official}} \cdot 100\%,$$

where $PIT_{factual}$ – Personal Income Tax factual, $SP_{factual}$ – actual receipts of the tax on incomes of individuals and set of social payments; PIT_{debt} – debts on these taxes (payments); $LP_{official}$ (Labor Payment official) – official remuneration of wage workers (without hidden wages).

Nominal burden on consumption ($TB_{consumption}$):

$$TB_{consumption} = \frac{EX_{factual} + VAT_{factual} + MET_{factual} + AR_{factual} + EX_{debt} + VAT_{debt} + MET_{debt} + AR_{debt}}{FHC_{house}} \cdot 100\%,$$

where $EX_{factual}$ (excise tax), $VAT_{factual}$, $MET_{factual}$ (Mineral extraction tax), $AR_{factual}$ – actual receipts of excises, VAT , MET and other payments for natural resources sold on the territory of the country, import duties; EX_{debt} , VAT_{debt} , MET_{debt} – debts on these taxes and duties; FHC_{house} – actual final consumption of households.

The index of nominal burden on gross profit (TB_{profit}):

$$TB_{profit} = \frac{CIT_{factual} + ACIT_{factual} + CIT_{debt} + ACIT_{debt}}{GP} \cdot 100\%,$$

where $CIT_{factual}$ (income tax), $ACIT_{factual}$ (aggregate income tax) – actual income tax on profits and taxes on total income; CIT_{debt} , $ACIT_{debt}$ – debts on these taxes; GP – gross profit of the economy and gross mixed incomes.

Official Rosstat data were used for the calculations. For the structuring of electoral cycles in Russia, a chronological principle was used. This principle allows better understanding of the interrelationship of political and socio-economic events in a certain period of time, and therefore, makes factorial assessment of political changes and tax reforms easier. Thus, the breakdown of the electoral process into cycles in our case may contribute to a better understanding of political development and tax reform periodization in Russia.

3.2. Electoral cycle in Russia

The concept of the electoral cycle is used to visualize and better understand the cyclical nature of the changes taking place in the electoral process. This tool was developed by the European Commission, the International Institute for Democracy and Electoral Assistance and the United Nations Development Program². The electoral cycle regards elections as an ongoing process, which is divided into three main periods: the pre-election period, the electoral period and the post-election period. It is noteworthy that the electoral cycle does not have fixed initial or end points,

² Available at: <http://aceproject.org/electoral-advice/electoral-assistance/electoral-cycle#ftn1>.

which is also true for all periods in the cycle. Theoretically, we can say that one cycle ends when another begins and the same applies to the periods in the cycle.

Six electoral companies for the election of the President and the State Duma were held during the analyzed period in the modern history of Russia (Table 1).

Table 1
Federal Elections in Russia 1993–2018

Period of election	Date	
	Elections to the State Duma	Elections of the President
1995–1996	December 17, 1995	June 16, 1996 July 3, 1996
1999–2000	December 19, 1999	March 26, 2000
2003–2004	December 7, 2003	March 14, 2004
2007–2008	December 2, 2007	March 2, 2008
2011–2012	December 4, 2011	March 4, 2012
2016–2018	September 18, 2016	March 18, 2018

Taking into account the periodization of the stages of the electoral cycle, for the purposes of our research, we will allocate six election periods, taking as reference the elections to the State Duma (the first period – 1995, the second period – 1999, the third period – 2003, the fourth period – 2007, the fifth period – 2011, the sixth period – 2016).

The comparison of the electoral cycle and elections to the State Duma has historical roots and is connected with ensuring the legality of taxation. In the history of Western democracy formation, much of the political changes were based on resisting arbitrary taxation. Thus, the history of parliamentary power in the UK is closely linked to the struggle to restrict the king's right to raise taxes, and the American revolution began with protests against the use of the metropolitan tax without agreement with the colony.

Representing the interests of taxpayers in parliament is considered a democratic guarantee against arbitrary taxation on the part of the state. In the Russian Federation, tax authority for the establishment and imposition of taxes belongs to representative authorities. The only exception is the decrees of the President of the Russian Federation, which can make changes in the tax legislation, but should

not contradict it and the Constitution of the Russian Federation. Therefore, shall we consider first of all the relationship between tax transformations and parliamentary elections.

4. General Characteristics and Trends of Tax Transformation in Modern Russia

Like any socio-economic system, the tax system is constantly being transformed. According to the point of view ascending to A. Smith, the tax system should be characterized by stability and immutability for sufficiently long periods of time.

However, the twentieth century. made adjustments to the concepts of dynamism and stability. The rate of change in modern economic systems has increased significantly, so the change in tax systems should be adequate.

The formation and further reform of the tax system urgently adopted in Russia was implemented even more dynamically. Although this process should be characterized rather not as purposeful-dynamic, but as chaotic-dynamic, especially at first. This practice has developed due to a number of objective reasons for the 1990s:

- the rapidity of the transition from a planned to a market economy;
- lack of the required scientific and methodological elaboration of the reform, long-term program of its implementation and clear targets;
- large-scale borrowing of foreign tax structures and their subsequent adaptation to Russian conditions, using as the main trial and error method;
- excessive subordination to the changing political conjuncture.

4.1. The first stage of tax reforms: 1993–1996 (the first electoral cycle)

The essence of this stage was to run new models of taxes, to adapt them and to find ways to reform. By 1992, in the most urgent order, a tax system was created, where all possible list of taxes, fees and other obligatory payments was recorded at the same time.

The formed three-level system of a limited number of federal, but unlimited number of regional and local taxes and

fees (one listing of which does not fit on the whole page), could not initially be perfect. The lack of domestic experience and relevant scientific developments, low taxation culture and responsibility of payers, weakness of state power and local self-government predetermined low efficiency of the system functioning at the first stage. It did not implement fiscal, not to mention other functions of taxation in full. At the same time, one should note that although the scale of failures in the sphere of taxation in the first half of the 1990s was significant enough, but in general it should not be over-exaggerated. Tax failures are incommensurably fewer than the more serious failures of that time committed in the economy, public administration, finance, national relations and other spheres.

As I. V. Gorsky notes, at the beginning of the reform, the overall assessment of the formed tax system was quite satisfactory for the following reasons [18].

From a financial point of view, this system was quite diverse, covering all objects of taxation (income, property, consumption), and was able to meet budgetary needs under controlled inflation.

From the economic point of view, the planned tax burden should not, on the whole, discourage the development of production. However, the balance between the taxation of income and consumption was violated towards the latter. So, a number of taxes on incomes did not have high rates by international standards, in particular such taxes as on profit and income. Taxes on property were also insignificant. Fearing for decades of unsatisfied desire to consume, the reformers introduced two extraordinary elements in taxation to limit consumer appetites and inflationary consequences. First, VAT was introduced at an extremely high rate of 28 %, which has no analogues in world practice. Secondly, against the backdrop of fairly high social fund contributions (up to 39 %), for several years the level of remuneration of labor was regulated through profit taxation (a four-, six- and even eightfold excess of wages over the established minimum was included in the income tax base).

From a *social* point of view, the reform was the least developed. Pensions and social security systems were sorely lacking in funds. The high standards of social payments did not save, and under the conditions of hyperinflation instantly depreciated. Besides, the negative effect of high VAT limited the already low level of consumption of the least well-off strata contributed to the worsening of social stability in society, as well as the unknown previously differentiation in the distribution of incomes, which is impossible to take away by the progressive taxation of personal incomes in the absence of real control.

4.2. The second stage of tax reform: 1997–2000 (the second electoral cycle)

The essence of this stage was the transition to an active and purposeful reform of the tax system. This step was taken from the announcement of the President's Address to the Federal Assembly on March 6, 1997, which determined its main directions (see Figure 1) [19, pp. 360].

This message encouraged the process of choosing the direction of tax reforms. It was from this moment on that the reform of taxes acquired the features of purposeful and justified actions. In 1998, the Government of the Russian Federation finally settled on the project of the evolutionary improvement of the tax system proposed by the Ministry of Finance. It was the basis for the development of the Tax Code (TC), the first part of which was put into effect on January 1, 1999.

One of the main reform directions was a significant restriction of the previously granted and almost unlimited powers of regional and local government levels in the field of establishing new taxes and fees, and the distribution of tax revenues between budgets of various levels. The regional and local initiatives in this area by the mid-1990s essentially turned into tax arbitrariness, which caused the inequality of economic conditions in various regions and became a real threat to lose the unity of the country's economic space. Cardinal changes here were achieved with the adoption of part one of

the first TC, which determined the scope of their powers to establish, modify and abolish regional and local taxes. The most significant result of this direction was a closed (exhaustive) list of regional and local taxes, beyond which a tax initiative of the appropriate level could no longer go out. Thus, the subjects of the Russian Federation and local self-government bodies have lost the opportunity to introduce taxes or fees in excess of the list established by the TC.

Another no less important area of reform was the reduction in the total number of taxes and fees. Before 1996, the list of tax payments in Russia was at least 46 types, differing significantly in different regions of the country. With the adoption of the first part of the Tax Code, the amount of taxes and duties at all levels decreased by almost 20 %, amounting to 35 taxes and fees.

Another important area of reform was the reduction of tax rates for the main budget-forming taxes. Examples are sufficient. So, for VAT, the total rate changed from 28 % in 1992 up to 20 % in 1999. The corporate income tax rate decreased almost twofold: from 45 % in 1992 to 35 % in 1996 and further, from 1999 to 24 %.

The taxation of incomes of citizens was also significantly changed. Progres-

sive taxation of income tax, when the maximum rate of this tax was 40 % since 1992, and then 30 % since 1996, was replaced in 1999 by a “flat” personal income tax (personal income tax) scale with a basic rate of only 13 %.

It should be noted that the adoption of the Tax Code was intended to ensure the formation of an understandable and simple tax system. Against the background of positive effects, the reform was not without a number of less significant, but still observed shortcomings. The general provisions in many ways proved to be “dangling in the air” (left without any result) without solving the fundamental problems of construction and the application of specific taxes and fees.

In this connection, the work on the second part of the TC was speeded up, the adoption of the first four chapters of which marked the beginning of a new stage.

4.3. The third stage of tax reform: 2001 – present (the third, fourth, fifth and sixth ejector cycles)

The third stage of tax reforms was implemented during four electoral cycles. The essence of this stage is the codification of an exhaustive list of taxes and fees in modern Russia. The sequence of codification is presented in Table 2.

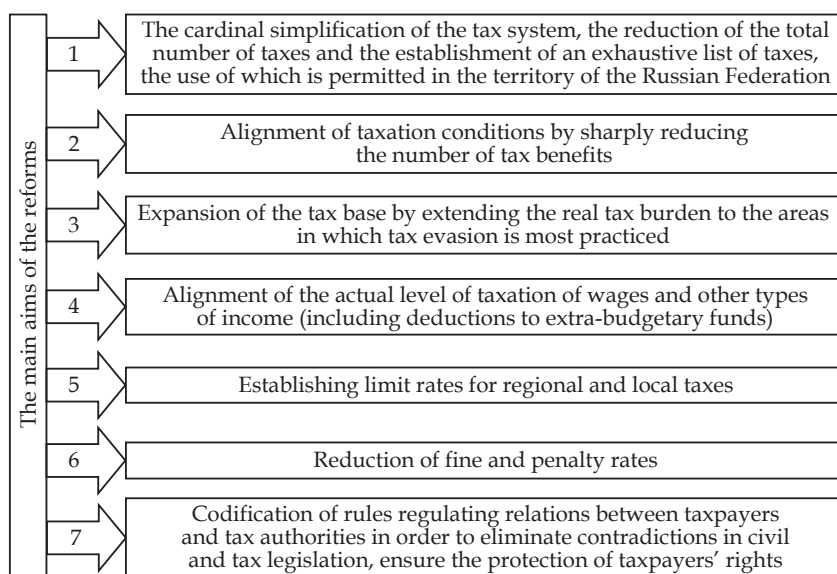


Figure 1. The Main directions of the second stage of the reform

Table 2

Sequence of the introduction of the Russian Federation Tax Code, Chapters of Part II

Implementation	Electoral cycle	The Tax Code Chapters
Since January 1, 2001	The third electoral cycle	Chapter 21. Value added tax Chapter 22. Excises Chapter 23. Personal Income Tax Chapter 24. Unified social tax (cancelled since January 1, 2010)
Since January 1, 2002		Chapter 25. Corporate income tax Chapter 26. Tax on mining operations Chapter 26.1. The system of taxation for agricultural producers (single agricultural tax) Chapter 27. Sales tax (canceled from 1 January 2004)
Since January 1, 2003.		Chapter 26.2. Simplified system of taxation Chapter 26.3. The system of taxation in the form of a single tax on imputed income for certain types of activities Chapter 28. Transport tax
Since January 1, 2004		Chapter 25.1. Charges for the use of objects of fauna and aquatic biological resources Chapter 26.4. The Taxation System in the Implementation of Production Sharing Agreements Chapter 29. Tax on gambling business Chapter 30. Corporate Property Tax
Since January 1, 2005	The fourth electoral cycle	Chapter 25.2. The water tax Chapter 25.3. The State Duty Chapter 31. Land tax
Since January 1, 2013	The sixth electoral cycle	Chapter 26.5. Patent system of taxation
Since January 1, 2015		Chapter 32. Personal Property Tax Chapter 33. Trading fee
Since January 1, 2017		Chapter 34. Insurance premiums

Thus, 17 taxes (fees) and 5 special tax regimes were codified in four electoral cycles. The greatest legislative activity falls on the third cycle, during which 11 taxes (fees) and 3 special tax regimes were codified. During the fifth cycle there was no legislative activity.

In general, the formation of the second part, despite the annual changes introduced, can be considered almost complete. The Tax Code became a single, systematic document regulating the whole set of tax relations in the Russian Federation.

It is extremely important that the codification of taxes was accompanied by their parallel revision. It was necessary to eliminate inefficient and overlapping taxes, as well as so-called negotiable, inherently “non-market” taxes, which was done at the beginning of the third stage. A significant success of such a revision can be considered the abolition of taxes on the maintenance of housing and social and cultural facilities. A striking example of a non-market tax was also the tax on road

users, levied on sales revenues. The tax amount paid was included in the price of the products at each stage of production according to the turnover tax principle. The amount of tax was accumulated with each new stage of the technological chain of production and the advantages were obtained by the manufacturer of technologically simple products, which did not contribute to the normal development of the economy. The total cancellation of this tax occurred in 2003, while the budget losses were compensated to a certain extent by an increase in excise taxes on fuels and lubricants and a change in the procedure for the application of excises in respect of petroleum products, as well as the introduction of a transport tax.

Examples of taxes with the same object of taxation and a similar tax base were deductions for the reproduction of mineral resources and payments for the use of subsoil. Since 2002, these two payments, as well as excises for oil and stable gas condensate, have been organically re-

placed by a mineral extraction tax that has comprehensively covered various taxable resource objects.

Until 2004, indirect taxes such as VAT and sales tax were similar on a tax base. Most countries have long abandoned their parallel application, the practice of their simultaneous existence persisted only in Russia and Canada, so the sales tax was abolished in 2004. In the past two years, the number of taxes and charges has stabilized, increasingly acquiring features of a certain logical completeness, despite the fact that some progress in reducing their composition is still continuing: from 2006, the tax on inheritance and donation has been abolished. Thus, the number of taxes and fees in the Russian Federation has steadily declined over the past 10 years, and since 2006 the tax system has included only 20 tax payments. This figure is by no means a reflection of the actual number of taxes paid by legal entities and individuals. Their number is significantly lower due to inclusion in this system of special tax regimes that replace the payment of some taxes, as well as certain taxes with taxable objects that are specific only for certain types of activities.

Compulsory social payments have undergone drastic reform. The aggregate of these payments paid by employers from the wage fund to different addresses was replaced by a regressive unified social tax, the rate of which decreased from 35.6 % in 1999 to 26 % in 2005. In addition to reducing the rate of a significant direct tax – UST, the rate has been reduced to 18 % since 2005 in the main indirect tax – VAT.

Another important area of improving the tax system, which directly affects not only the increase in tax revenues to the budget, but also the formation of a positive perception of this system by taxpayers, has been a steady decline in the total number of tax benefits. This reduction was carried out, firstly, by eliminating ineffective benefits, often not reaching those intended for them, and secondly, by eliminating the benefits that distort the economic content of taxation, which are peculiar “loopholes” for minimizing tax obligations.

Virtually all taxes and fees were inventoried to check the excessive number of benefits. For a number of taxes, such as for personal income tax and VAT, the number of indirect benefits was significantly reduced. On other, for example, the profit tax of organizations, all direct benefits were generally eliminated, including economically justified, and the most popular investment privilege. In addition, in the process of forming new chapters of the Tax Code, since 2002, lawmakers have already consciously sought to design taxes without the use of benefits. In some taxes, for example, in the tax on the extraction of minerals, they were able to fully implement it, in others, for example, in the state duty – no. Today, direct benefits as an element of taxation in the Tax Code have been left only in four taxes, but in camouflage form the benefits are still sufficiently present.

A significant success in improving the tax system was the implementation of a set of special tax regimes aimed at creating favorable tax conditions for certain categories of taxpayers. Favorable conditions here are determined by the possibility of reducing the tax burden, replacing of a number of taxes payment with a single tax payment, and, accordingly, a significant simplification of the tax administration procedure both at the level of the taxpayer and the tax authorities.

5. Tax burden and elections in Russian Federation

5.1. Tax burden and elections to the State Duma of the Russian Federation

In accordance with the proposed methodology for tax burden assessment, we should consider the relationship between its dynamics and elective periods (Figure 2).

The figure graphically shows the change in the tax burden in the election year. Each elective cycle is presented in the form of a line connecting points deviating from the basic indicator. The basic indicator is taken in the year preceding the election.

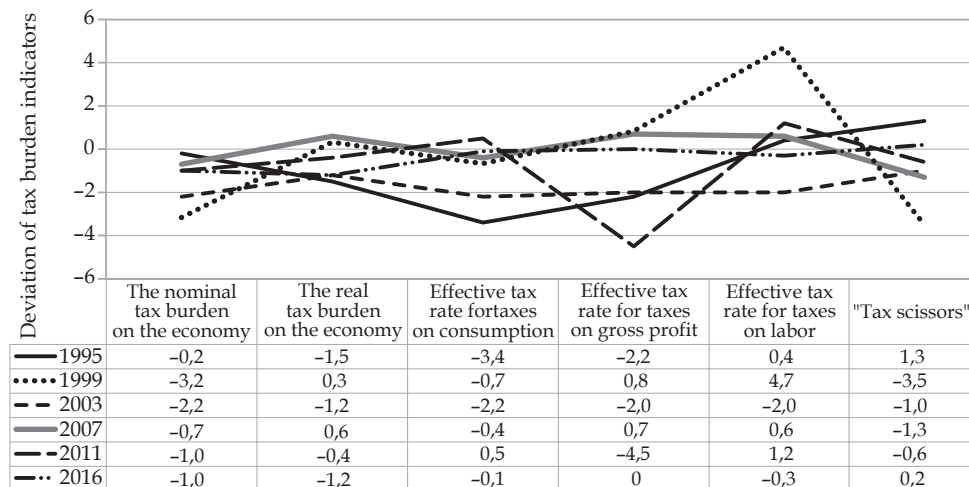


Figure 2. Deviation of the tax burden during the elections to the State Duma (the percentage point to the previous year)

For example, in the first election cycle (elections to the State Duma in 1996), the nominal tax burden on the economy decreased by 0.2 to the previous year, and the real tax burden on the economy decreased by 1.5. The effective consumption tax rate (-3.4) fell most of all, and the effective rate of taxes on labor, on the contrary, increased by 0.4.

Comparing the indicators of the tax burden with the stages of the electoral cycle, we can note the following:

- the nominal tax burden on the economy, which characterizes the ratio of the amount of assessed mandatory payments to the value of the corresponding result of activity, always decreases during the period of elections to the State Duma of the Russian Federation. This means that appropriate changes are made in the legislation, allowing to reduce the accrued taxes or, more simply, laws are adopted in favor of voters or their individual groups;
- the actual tax burden characterizing the ratio of the amount of actually paid mandatory payments to the value of the corresponding result of the activity changes not so uniquely and slightly increases during certain elective periods, which may indicate the activation of tax authority activities and the improvement of tax collection in the relevant period;
- the effective rate of consumption taxes depends to the greatest extent on the

electoral cycle. The effective rate of these taxes declined in five elective periods of six;

- with an increase in the tax burden, preference is given to taxes on labor, whose effective tax rate is more frequent than for other taxes growing in the election year;

- the most ambiguous manner is demonstrated by the most effective tax rate for the income tax, which fluctuations depend, inter alia, on the economic situation and do not lend themselves to instant regulation;

- "tax scissors" have a significant "opening angle" in earlier election periods. This indicates, first, the gradual improvement of tax discipline on account of increasing the effectiveness of tax administration, and secondly, that the tax burden becomes more acceptable to taxpayers.

- the first, second and fifth elective periods (1995, 1999 and 2011, respectively) are the most "unstable" periods from the point of view of chaotic changes in tax legislation. In these periods there is a variety of changes in the tax sphere: an increase in the effective rate of labor taxes is accompanied by a decrease in the effective tax rate for consumption or vice versa;

- the third, fourth and sixth elective periods (2003, 2007 and 2016, respectively) were the most stable periods in terms of the changes that were implemented characterized by a decrease or stabilization of all components of the tax burden.

5.2. The tax burden and the election of the President of the Russian Federation

As we said above, the transformation of the tax system belongs to the prerogative of legislative power. However, the role of the President of the country in the decision-making system in all spheres of country's life is very high. The Institute of the President in modern Russia is one of the key institutes in the system of public authorities. In recent years, the positions of the presidency institute in the system of public authorities have acquired qualitatively new features. In fact, the relations developing in the system of political power in Russia testify, first of all, to the strengthening of the influence of the Russian Federation President on all branches of power. In addition, the institution of the presidency has become the main, integrating and consolidating factor in the country. Taking into account the role occupied by this institution in the life of the country, it can be argued that the fate of the entire Russian state depends on its development.

Taking into account the aforesaid, we shall consider interrelation of indicators of tax burden with an electoral cycle on elections of the President. Data characterizing tax changes in different elective periods are shown in Figure 3. We could not include in the analysis the election period of 2018 due to the lack of statisti-

cal data. Therefore, the analysis includes five elective periods: the first – 1996; the second – 2000; the third – 2004; the fourth – 2008; the fifth – 2012.

Comparing the indicators of the tax burden with the stages of the electoral cycle, we can note the following:

- the nominal tax burden on the economy, which characterizes the ratio of the amount of assessed mandatory payments to the value of the corresponding result of activity, significantly decreased only in the first election period (1996) generally characterized by contradictory changes in the taxation sphere.

- the real tax burden characterizing the ratio of the amount of actually paid mandatory payments to the value of the corresponding result of activity in all elective periods, except for the first one, tended to increase. Most likely, this is due to a certain increase in administrative pressure on big business in order to improve the collection of taxes to finance costs in the relevant period;

- most often, during the presidential elections, the effective rate of taxes on gross profit decreased;

- the effective tax rate for taxes on labor, most often, increased, the same as during the election periods for elections to the State Duma of the Russian Federation;

- the most “unstable” periods from the point of view of chaotic changes in tax

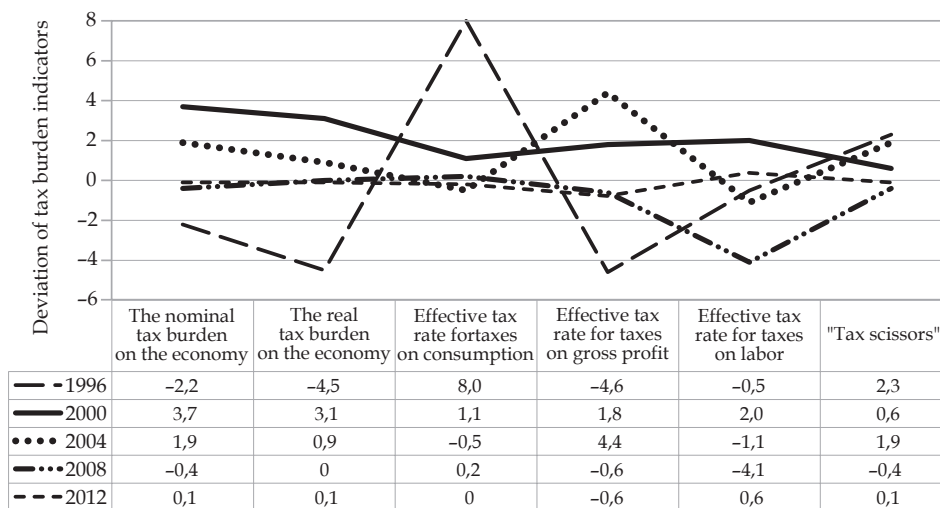


Figure 3. Deviation of tax burden indicators in the year of the Elections of the RF President (percentage point to the previous year)

legislation are the first and third elective periods (1996, 2004, respectively). In these periods there is a variety of changes in the tax sphere – an increase in the effective rate of taxes on labor or gross income is accompanied by a decrease in the effective tax rate for consumption or vice versa;

– the most stable periods in terms of the changes were the second and fifth elective periods (2000, 2012 respectively), the first of which was characterized by an increase in all components of the tax burden, and the second period was accompanied by virtually no changes in indicators.

5.3. Dynamics of tax burden and electoral cycle in Russia

Consider the effective rates for profit, labor and consumption in the dynamics (Figure 4).

The analysis of effective rates for labor, profit and consumption in the context of electoral cycles shows their multidirectional dynamics over the years of the cycle (Figure 4).

1. In the election year and next year of the electoral cycle, there is an increase in effective rates for profit, consumption and labor. This trend was especially noticeable in the first electoral cycles, when there was considerable competition in the presidential elections. So, consumption taxes increased at the beginning of the second and third electoral cycles. For taxes on labor, this trend is even more pronounced. Taxes on labor increased at the beginning of the first, second, third and even at the beginning of the sixth electoral cycle. On profit, the situation is somewhat different. There an upward trend is observed in the first, third and fourth electoral cycles.

2. In the final years of the electoral cycle, a decrease in effective rates for profit, consumption and labor is noted. Consumption taxes are reduced at the end of the first, second, third and fourth electoral cycles. For taxes on profit, the burden decreases at the end of the first, third and fifth electoral cycles. For taxes on labor, this decrease is noticeable only at the end of the third and fourth cycles.

Thus, the influence of electoral cycles on Russia's tax system is a cyclical in-

crease in the tax burden on the main elements of *GDP* in the first years of cycles and the lowering of the tax burden in the final years of electoral cycles. At the same time, it can be noted that the volatility of the tax burden indicators decreases in the last two electoral cycles, when the presidential elections in Russia no longer had a significant political intrigue. Accordingly, it may be reasonable to conclude that the volatility of the tax burden indicators for the main elements of *GDP* increases when the variability of electoral choice and the competitiveness of President's elections increase. However, the volatility of tax burden indicators on the main elements of *GDP* decreases when the variability of electoral choice and the competitiveness of the head of state elections are reduced.

We shall verify this conclusion by analyzing the tax burden indicators on the Russian economy as a whole (Figure 5).

In the first four electoral cycles, there is a clear trend of increasing the tax burden on the country's economy in the first years of cycles and reducing these indicators in the final years of the cycles. At the beginning of the fifth cycle, the decrease in the tax burden on the country's economy is due not to the influence of the electoral cycle, but to the impact of the global economic crisis and a marked decrease in the profitability of companies and, correspondingly, to a decrease in the deductions from profits in favor of the state.

Moreover, the real and nominal tax burden indicators change during the electoral cycle almost synchronously, repeating the trends of the initial increase and the final decrease during each cycle. In the fifth and sixth cycles, the upward trend in the indicators is not observed, but only the decreasing dynamics is noted. This reaction of the tax load on the economy during the first four cycles and the absence of such volatility in the last cycles confirms the earlier conclusion about the impact of competitive electoral cycles on the country's tax system. Moreover, the higher the variability of electoral choice and the competitiveness of the elections themselves, the more noticeable are the quantitative changes in taxation.

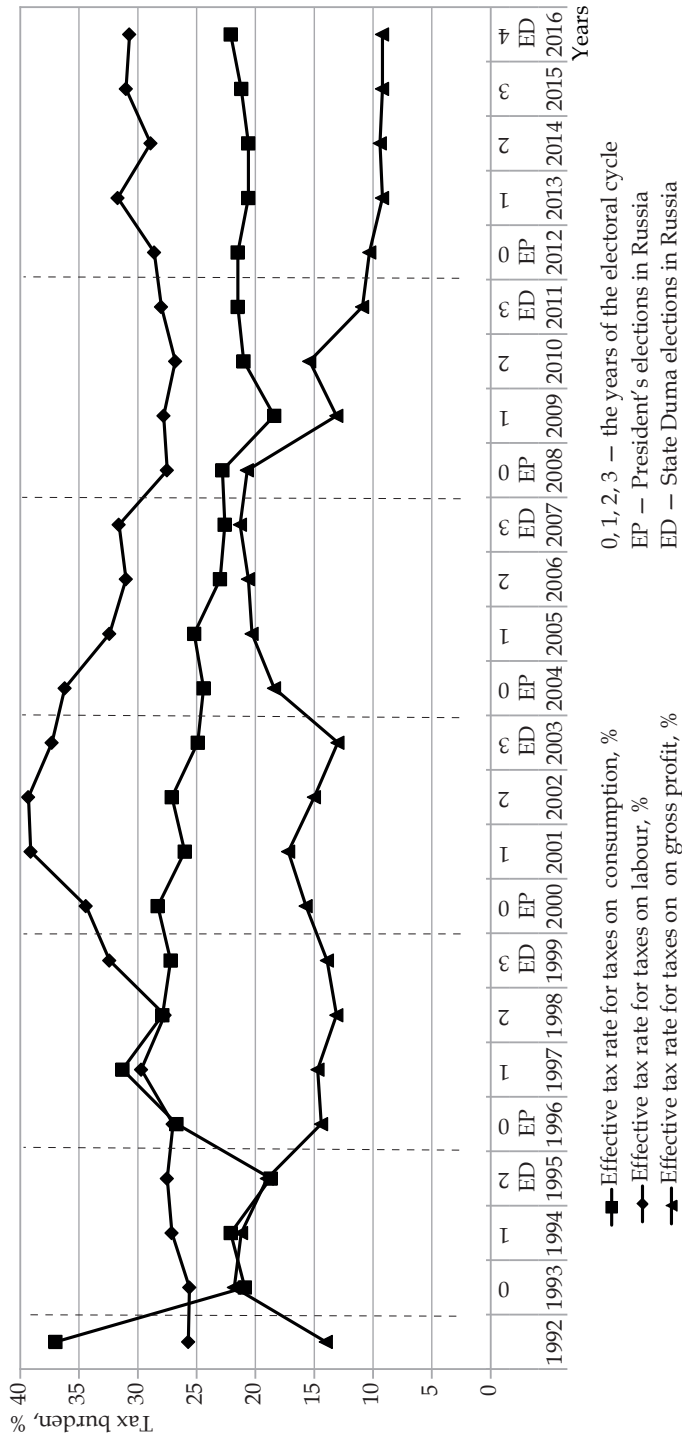


Figure 4. Dynamics of effective rates for labor, profit and consumption and the electoral cycles

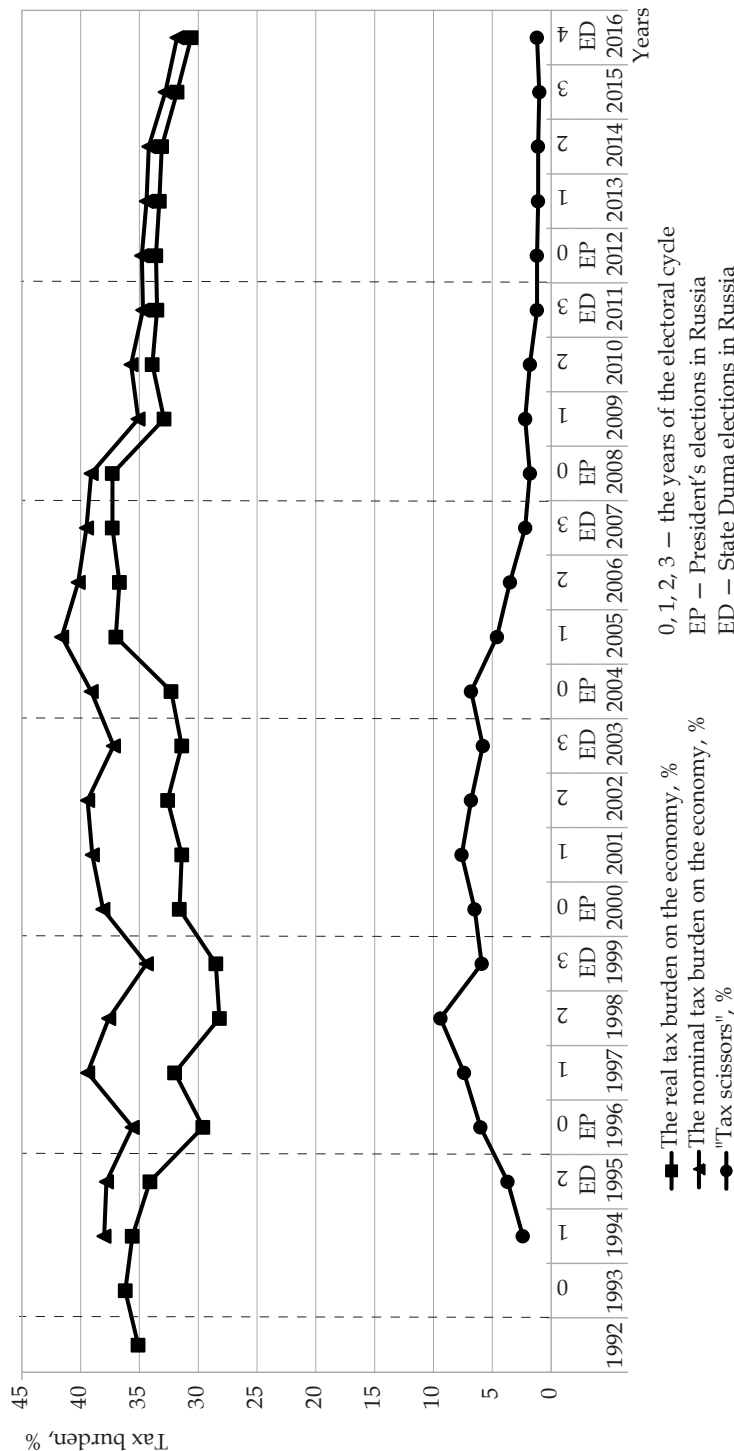


Figure 5. Dynamics the tax burden indicators on the Russian economy and the electoral cycles

As for qualitative changes in tax administration, we suggest using the indicator of “tax scissors” as the difference between the calculated and collected taxes (Figure 5) as an integral measure of such changes. It can be seen that the index of “tax scissors” reaches a maximum in the second and third electoral cycles, and since the fourth cycle has been steadily declining. This positive change indicates a steady increase in the collection of taxes. There is no stable connection with electoral cycles.

6. Tax legislation, amnesty and elections

6.1. The number of changes introduced into the tax legislation and elections

Let us also consider the question of whether there is a correlation between the stages of the electoral cycle and the number of changes introduced into the tax legislation. Under the tax legislation, as part of the study, we will understand the special tax legislation (tax and levy legislation) that is, laws that regulate only the sphere of tax relations. Of the four levels of the system of legislation on taxes and fees that regulate tax re-

lations³, we will only consider the Tax Code of the Russian Federation (RF Tax Code). The Tax Code fixes the most important provisions on tax relations and it is the main law in the tax law.

We can reliably determine the number of changes introduced into the tax legislation only after the introduction of the tax code of the Russian Federation. The first part of the code was introduced in 1999 and from that moment on it has been constantly amended. The number of changes was calculated using the Consultant Plus system. The number of changes in parts one and two of the Tax Code of the Russian Federation was counted under the text of each law introducing amendments and additions to the Tax Code, the number of changes was summarized by years. The results are imposed only on the electoral cycle for elections to the State Duma of the Russian Federation. The results are graphically shown in Figure 6.

³ Four levels of tax legislation are: The Tax Code of the Russian Federation (RF Tax Code) is a codified act of higher legal force; federal laws on taxes and fees, adopted in accordance with the Tax Code of the Russian Federation; laws and other normative acts of legislative (representative) bodies of the subjects of the Russian Federation; normative acts of representative bodies of local self-government.

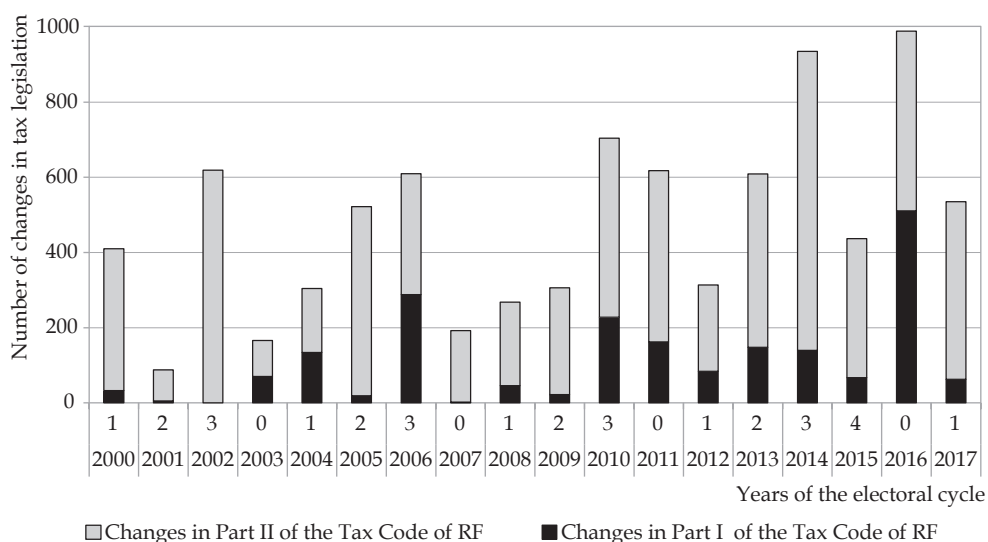


Figure 6. Dynamics of legislative changes in the tax system of the Russian Federation and elections to the State Duma

The figure clearly shows a decrease in legislative activity in relation to the number of changes in the electoral period. An analysis of these changes shows that in the first years of cycles the number of changes is less compared to the following years. The greatest number of changes is taken in the third year of the cycle. This dependence is manifested in the period of all analyzed cycles. Thus, the number of changes introduced was sharply reduced in 2003, 2007. A slight decrease can be noted in 2011. As for the last election period, the trend is not traced here. Supposing the elections did not move forward for a year and were held in 2015, then we would see a decrease in legislative activity again.

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6.2. Tax amnesty and elections

We are not going to consider the results and effectiveness of tax amnesties conducted. We proceed from the assumption that a tax amnesty may simply be a signal to the society or its individual groups and won't have a direct budgetary effect.

In the recent history of the Russian Federation, three announced tax amnesties have been carried out.

The first tax amnesty in 1993 was brought into compliance with the Presidential Decree No. 1773 "On the Tax Amnesty in 1993". According to the Decree, legal entities and individuals who declared before November 30, 1993 the amounts of previously unpaid taxes and transferred them to the budget, were

exempt from tax sanctions. In case of revealing companies' hidden income after this date, the bodies of the State Tax Service were obliged to collect fines from them in triplicate. During the period of the amnesty, about 2,000 individuals applied to the tax authorities.

The international experts B. Torgler and C. Schaltegger distinguish as a tax amnesty the exemption of certain organizations from tax debts [20]. From this point of view, the restructuring of arrears in taxes and fees, announced at the end of 1999 and conducted in 2000–2001 can also be attributed to a tax amnesty⁴. The amnesty was not of a total character. Decisions on the restructuring were made by the RF Ministry of Taxes and Tax Collection in the presence of an opinion on the solvency of economic entities of the Federal Service of Russia for financial recovery and bankruptcy, or by a territorial tax authority if the amount of the debt did not exceed 20 million rubles. The decision to restructure debts of organizations that are of strategic importance for the national security or of socio-economic importance was taken by the Government of the Russian Federation.

The next announced tax amnesty was held from March 1 to December 31, 2007⁵. In accordance with the law, individuals were asked to individually calculate the tax debt, based on the rate of 13 % of all income received before January 1, 2006. Curious can be called some results. The total income from payment of declarative payment amounted to 3, 6 billion rubles (considering the tax rate, the total amount of declared income was about 28 billion rubles). The income of declarative payment was formed mainly at the expense of two constituent entities of the Russian Federation: Moscow and the Chukotka Autonomous District, which provided 74 % of the total receipts of declarative

⁴ The procedure for restructuring the accounts payable of legal entities for taxes and dues, as well as arrears of accrued interest and penalties to the federal budget was approved by Resolution of the Government of the Russian Federation No. 1002 of September 3, 1999.

⁵ The federal law "On the simplified procedure for declaring income by individuals".

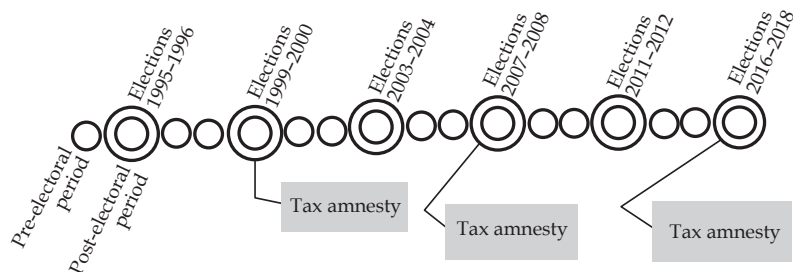


Figure 7. Tax amnesties and electoral cycles in Russia

payments (58 and 16 % respectively). It can be said that this amnesty also was not total and was used by certain individuals.

The third official tax amnesty was announced in 2017⁶. The amnesty should concern a large number of individuals for whom it is envisaged to write off tax debts formed on January 1, 2015 for property taxes (which include the transport tax, property tax of individuals and land tax). For individual entrepreneurs and individuals who were previously engaged in entrepreneurial activities, it is envisaged to write off tax debts and part of the arrears of insurance premiums.

So we can conclude that carrying out tax amnesties is unambiguously linked with the electoral process, and the moment of their implementation is confined to the elective period (see Figure 7).

7. Conclusions

As a result of the study of the relationship between tax reforms in Russia and electoral cycles, we consider the following points reasoned.

1. The relationship between tax reforms and electoral cycles in Russia is unambiguously present. The first two stages of tax reforms directly coincided with the electoral cycles. The third modern stage of tax reforms is implemented during several electoral cycles.

2. The intensity of the interrelationship between tax reforms and electoral cycles in

Russia depends on the nature of the election: interconnections are strengthened in the conduct of competitive elections and these relationships are weakened in the absence of significant competition in the elections. Accordingly, the higher the variability of electoral choice and the competitiveness of presidential elections, the more noticeable are quantitative changes in the sphere of taxation.

3. The electoral cycles for the elections to the State Duma of the Russian Federation have a stronger impact on tax reforms in Russia. The nominal tax burden on the economy is always reduced during the election period for elections to the State Duma of the Russian Federation. This means that the relevant changes in the legislation allow reducing the amount of taxes or, more simply, the State Duma passes laws in favor of taxpayers or their individual groups.

4. Electoral cycles for the election of the President of the Russian Federation have a less noticeable effect on tax reforms. During the presidential election, the effective rate of taxes on gross profit, as a rule, decreases. The effective tax rate for taxes on labor, most often, increased, as during the election periods for elections to the State Duma of the Russian Federation.

5. There is an increase in effective rates for profit, consumption and labor in the election year and next year of the electoral cycle. In the final years of the electoral cycle, there is a decrease in effective rates for profit, consumption and labor. Thus, the influence of electoral cycles on Russia's tax system is a cyclical increase in the tax burden on the main elements of GDP in the first years of cycles and the lowering

⁶ In accordance with the Order of the President of the Russian Federation, as well as Federal Law No. 436-FZ of December 28, 2017 "On Amending Part One and Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation".

of the tax burden in the final years of electoral cycles.

6. The analysis of changes in tax legislation during the electoral cycles showed that legislative activity to reform the Russian tax system is not uniform throughout each cycle. In the first years of the cycle, the number of changes is less than in the subsequent years of this cycle. The greatest number of changes in the tax legislation is adopted in the third year of the cycle.

7. The analysis of the tax amnesties conducted in Russia has shown that amnesties are unambiguously linked to the electoral process and their conduct is confined to the elective period.

8. The analysis of the effective rates for labor, consumption and profit in the connection with electoral cycles allows to assume that after the presidential election in 2018 we should expect an increase in the tax burden on labor.

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